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FISCAL IMPACT STATEMENT

LS 7474 | **NOTE PREPARED:** Jan 14, 2007
BILL NUMBER: HB 1702 | **BILL AMENDED:**

SUBJECT: Reassessment of land.

FIRST AUTHOR: Rep. Smith M | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates the requirement that land be reassessed when it is rezoned from one classification to another or put to a different use.

Effective Date: March 1, 2003 (retroactive).

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, annual state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits would vary. The amount of the increase or decrease would depend on the potential property tax shift that would result from reducing the assessment of previously rezoned property. For example, if part of the tax shift is applied to homesteads then it is likely that these credits would increase; if part of the tax shift is applied to business personal property, then PTRC payments would decrease. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the tax base because of lower reassessment will reduce the property tax revenue for these two funds. The amount of the decrease will depend on the amount of the reduction.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits would vary depending on the amount of the tax shift that would result from refunding tax payments to eligible property owners. If part of the tax shift is applied to homesteads then these credits would probably increase thereby reducing proceeds to be distributed to civil taxing units.

Explanation of Local Revenues: Under current law, if land assessed on an acreage basis is subdivided into lots, or the land is rezoned for, or put to a different use, the land has to be reassessed on the basis of its new classification. This bill would the eliminate the requirement that rezoned land be reassessed (current law would still apply if the land is subdivided into lots). For property taxes payable in 2004 and after, if the rezoned property was reassessed and the owner incurred higher property taxes because of the reassessment, or if the land would not have been reassessed if this bill had been effective before the reassessment, then the owner may appeal the current assessment if he does so before January 1, 2008. Additionally, the property owner may also file for a refund of any increased property taxes that he paid because of the reassessment. The bill waives the three-year statute of limitations on filing for a refund in these circumstances.

This bill, then, would lower the assessment of rezoned property to what it would have been if the property had not been rezoned. It has two fiscal impacts on local taxing units: the first, an immediate but short term, the second one, more long term. The immediate impact is that local taxing units might have to refund any increase in past taxes because of the previous higher reassessment. If the taxpayer is not entitled to a refund then there is no immediate fiscal impact. If the taxpayer is entitled to a refund, it will have to be taken out of current revenues.

The second, more long term, impact is that the tax base would be reduced by an amount equal to the previous increase in the assessment. This is equivalent to a tax deduction until the basis for the deduction changes. This reduction in the tax base would result in a tax shift to all other property in the form of an increased tax rate. The amount of the tax shift and the size of the increase in the tax rate is indeterminable at this time. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors; Township Auditors; County Property Tax Assessment Board of Appeals.

Information Sources:

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